

# **A toolbox for financial analysis**

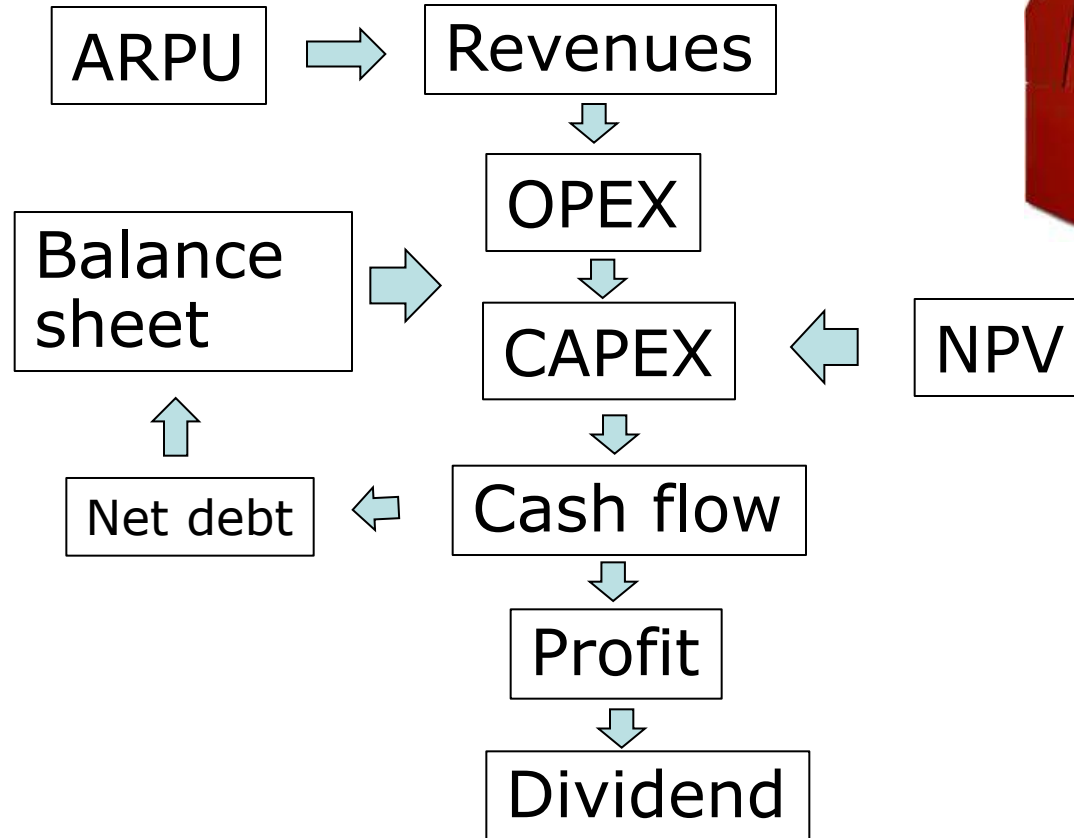


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# Ten concepts in focus



<b>Concept</b>	<b>Definition</b>
ARPU	Average Revenue per User
Revenues	The amount of money that a company actually receives during a specific period
Opex	Expenditure that a business incurs as a result of performing its normal business operations.
Capex	Funds used to acquire physical assets
Balance sheet	Lists the assets, debts and owners investment
Net debt	Netting the value of a company's liabilities and debts with its cash and other liquid assets
Cash flow	Operating cash flow minus capex
NPV	Net present value
GDP	Gross Domestic Product
Net profit	Earnings after all expenses and taxes have been deducted
Dividend	A distribution of a portion of a company's earnings, decided by the board of directors

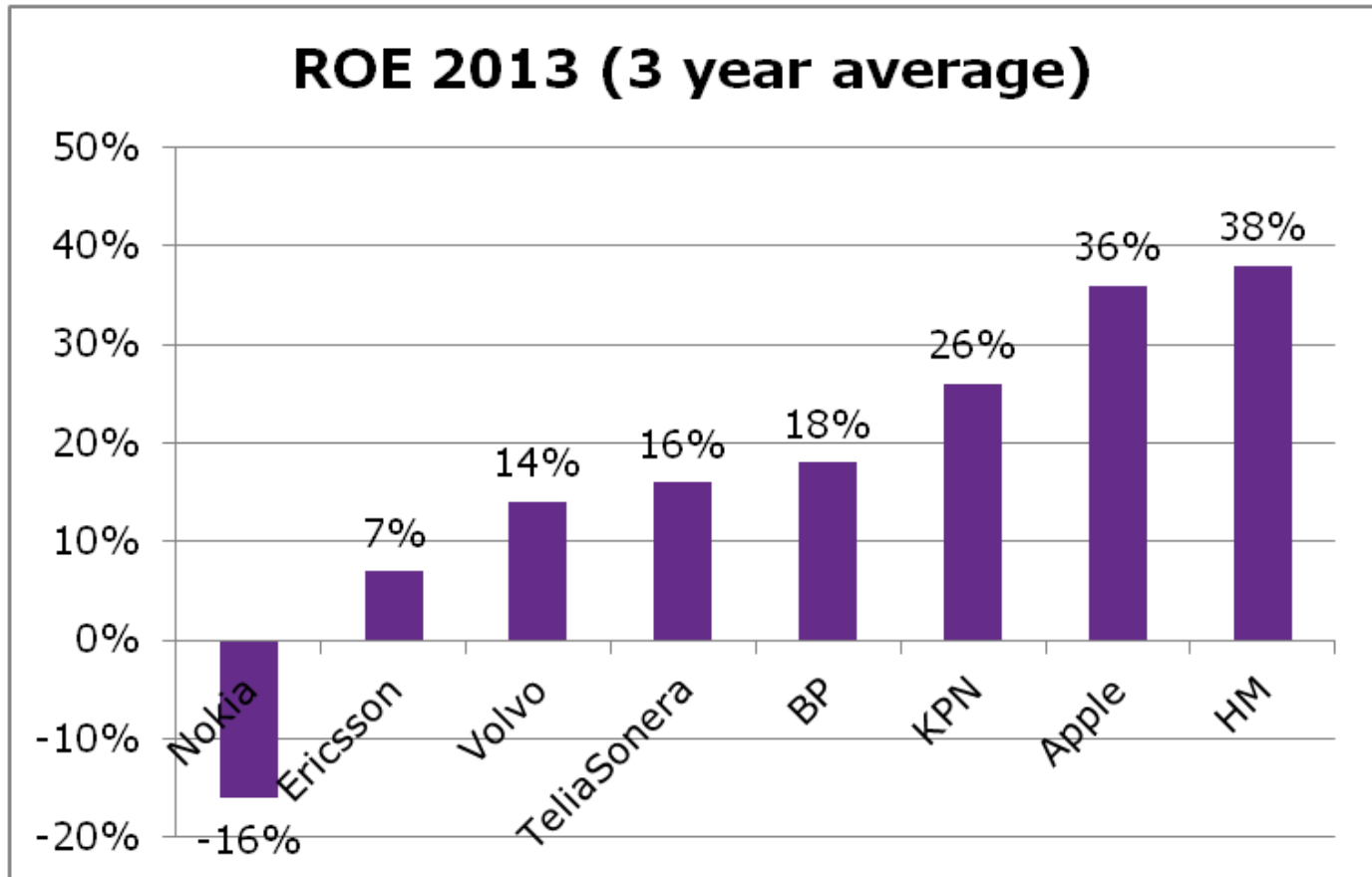
BP needs to come up with a vision of what its raison d'être is...



“ the market needs to see what the capital base is, what they are doing with it and what the returns on capital will be”

Financial Times 20110913

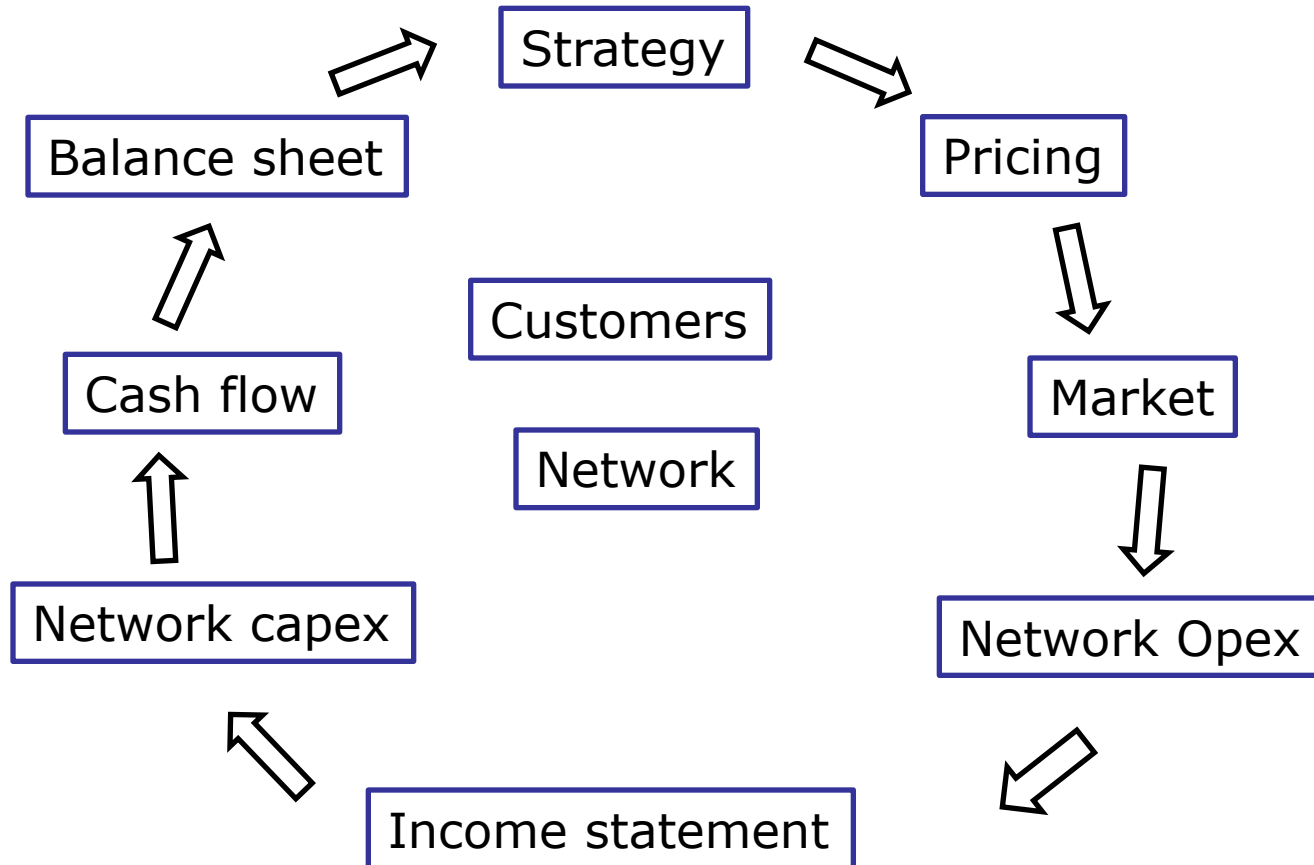
# Return on Equity



ROE is a measure of how well a company use reinvested earnings to generate additional earnings.  
ROE = net income divided by shareholder equity

Source: Bloomberg

# Mobile Operator Business



# Toolbox: ten concepts



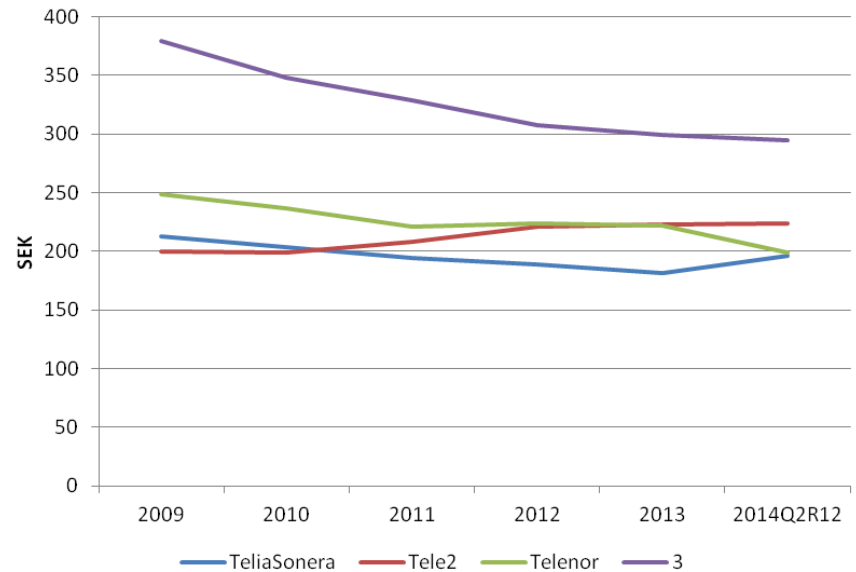
- Average Revenue Per User (ARPU)
- Revenues
- Operational expenditures (Opex)
- Capital expenditures (Capex)
- Cash flow
- Balance sheet
- Net debt
- Net present value (NPV)
- Profit margin
- Dividend

# #1 ARPU

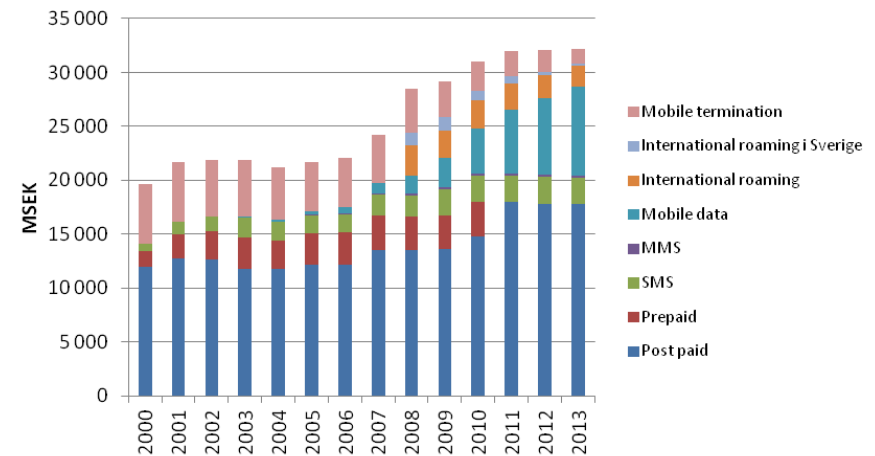
- Average revenue per user per month is what customers are paying, and other revenues
- Average ARPU SEK 200 per subscriber
- Revenues = Users x ARPU
- Mobile revenues Sweden is only end customer revenues
- Other revenues: termination charges, roaming charges, handset sales



### Mobile ARPU



### Mobile revenues Sweden



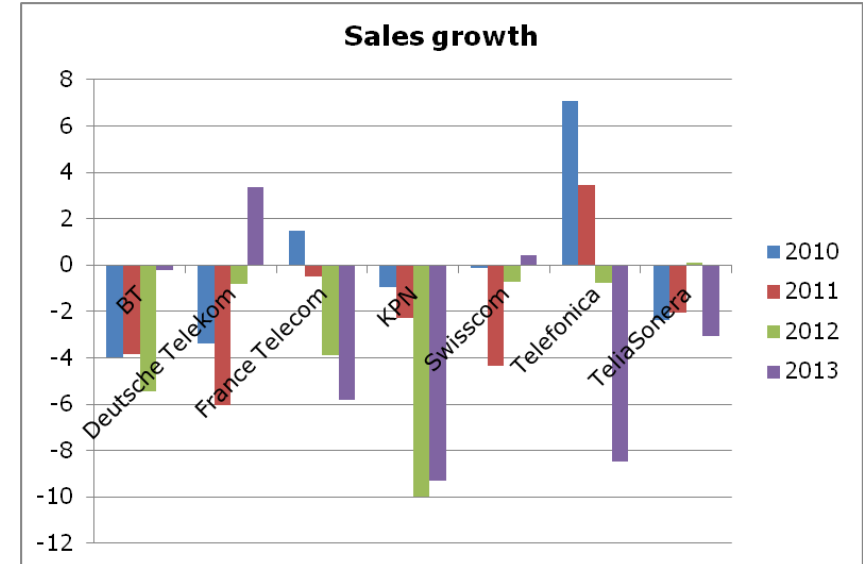
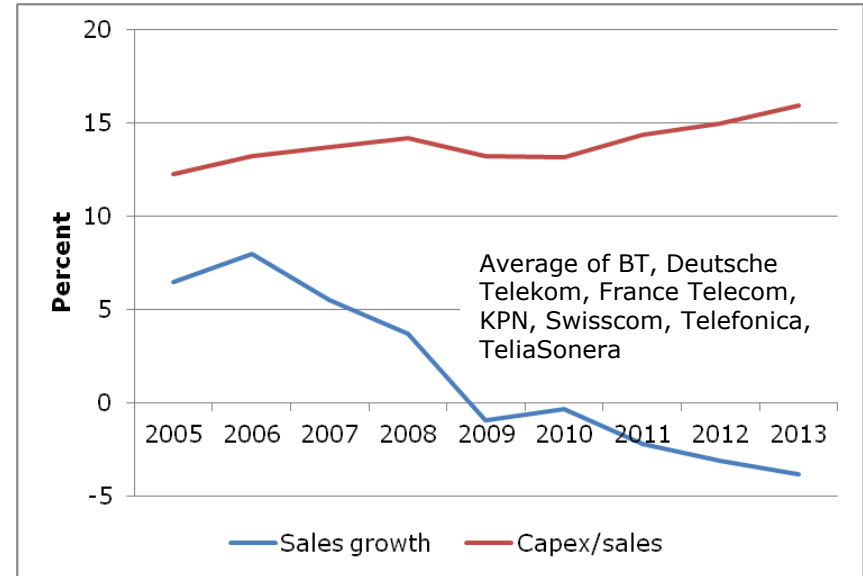
Source: TeliaSonera, PTS



# #2 Revenues



- It is all about the share of wallet and how money is spent (Share of GDP)
- Swedish households spend annually ~SEK 10 000 on communications
- It represents ~3% of disposable income



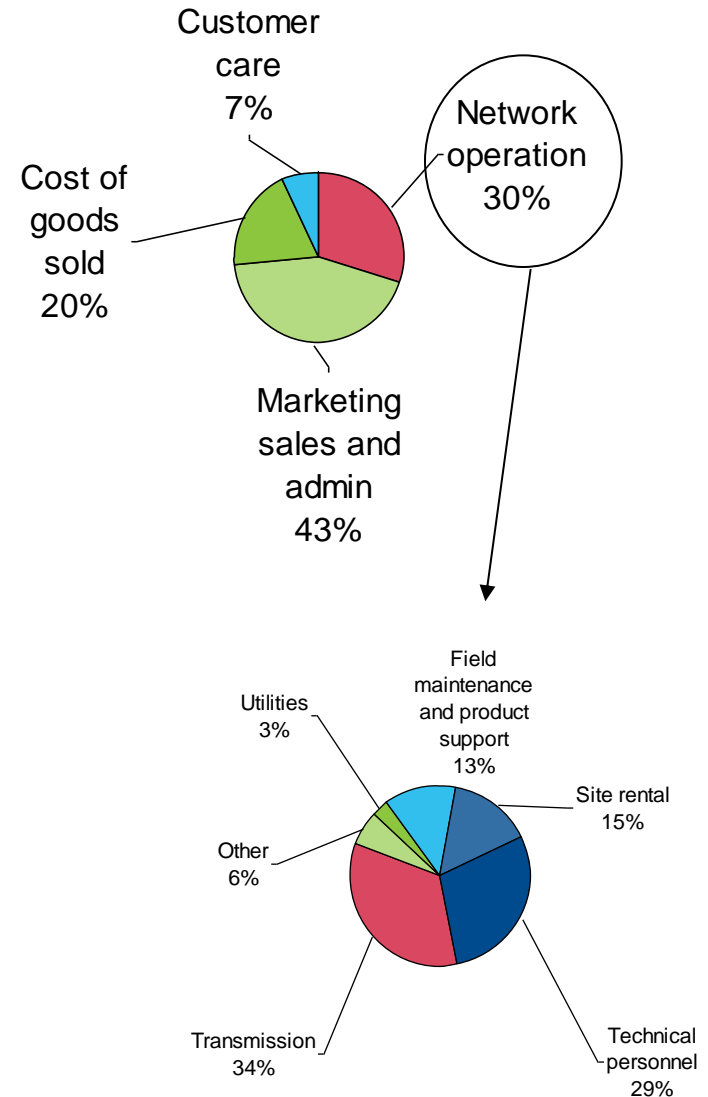
Source: Bloomberg

# #3 OPEX

- OPEX is ongoing costs for running a business or a network
- Paid in cash from the revenue stream derived from operations
- How could it be reduced? Reducing personnel, cut down on marketing, outsource functions, share infrastructure with competition



## OPEX



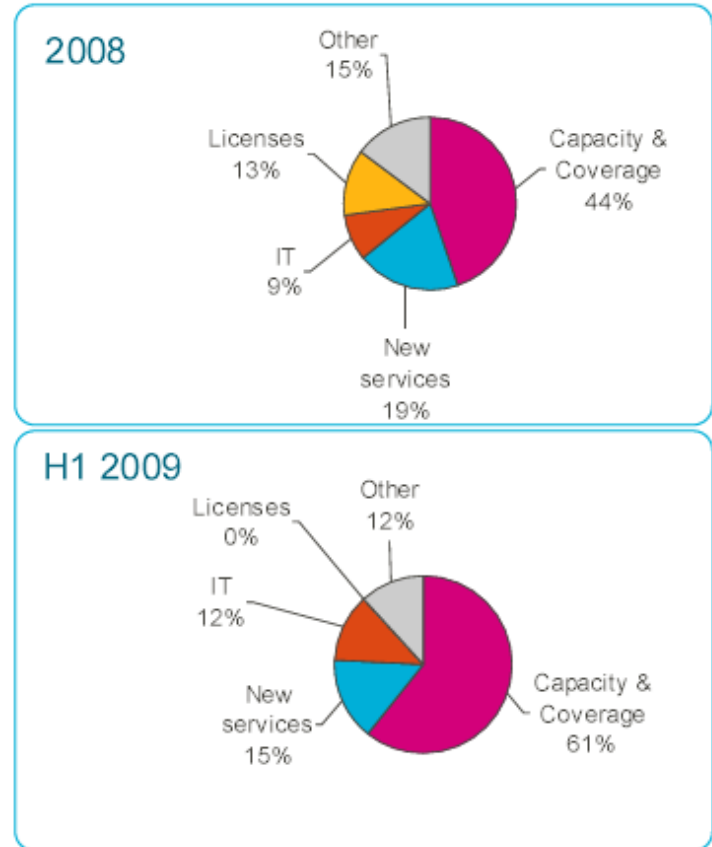
Source: Long Term Evolution, White paper Nokia Siemens Networks

# #4 Capex



- Capex is investments in intangible and tangible non-current assets: network equipment, sites, IT-systems, billing
- Capitalized, and amortized over the life time of the asset
- Capex-to-sales ~10-15%, depending upon market and corporate strategy
- Ways to lower capex: postpone network upgrades and replacement, infrastructure sharing

## CAPEX model TeliaSonera



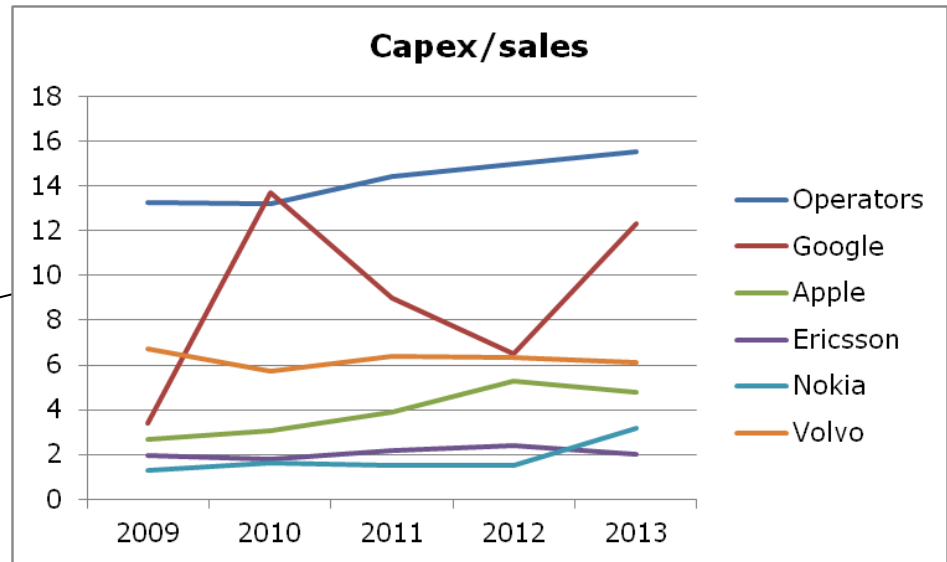
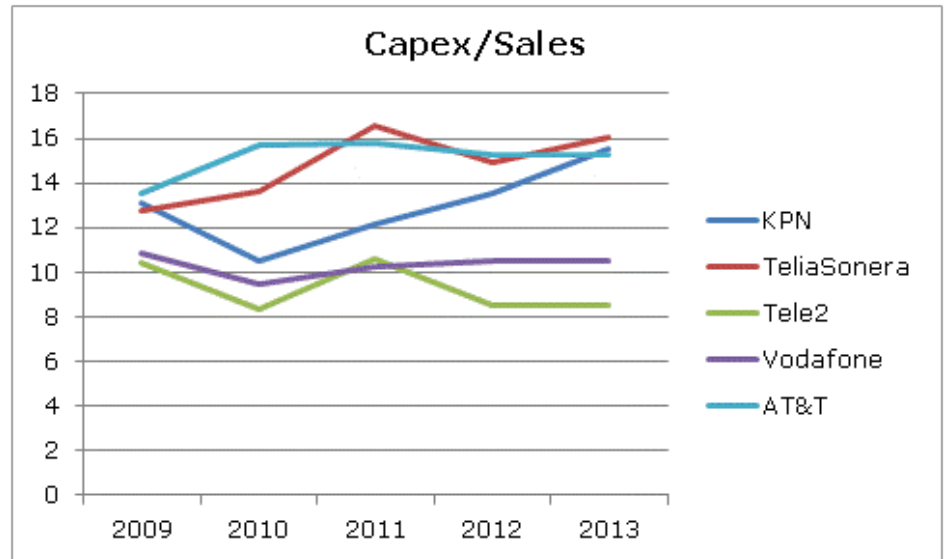
Source: TeliaSonera, 2009 report

# #4 Capex

TeliaSonera guidance 2014: capex-to-sales ratio of 15% (excluding license and spectrum fees).



The sample of operators consists of: BT, Deutsche Telekom, France Telecom, KPN, Swisscom, Telefonica, and TeliaSonera



Source: Bloomberg

# # 5 Cash flow

## Portugal Telecom

Robust set of financials and attractive shareholder remuneration



### Financial highlights

Euro million	4Q09	Δ% y.o.y	FY09	Δ% y.o.y	Pro-forma <sup>11</sup> growth
Operating revenues	1,812	+6.7%	6,785	+0.9%	+2.3%
Contribution from international assets (Pct)	53.7	+4.9pp	51.5	+1.8pp	
EBITDA	648	+5.6%	2,502	+0.9%	+2.0%
EBITDA margin (Pct)	35.8	-0.4pp	36.9	+0.0pp	
Net income	312	+118.8%	684	+18.7%	
EPS (Euro)			0.78	+22.9%	
Capex	455	-17.4%	1,268	+2.1%	
Net debt			5,528	-0.8%	
After-tax unfunded pension liability			1,079	-18.9%	
Dividend per share (Euro)			0.575		

<sup>11</sup> Adjusting for the effects of the consolidation of Telemig, lower MTB, and using constant exchange rate

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Cash flow = EBITDA – Capex



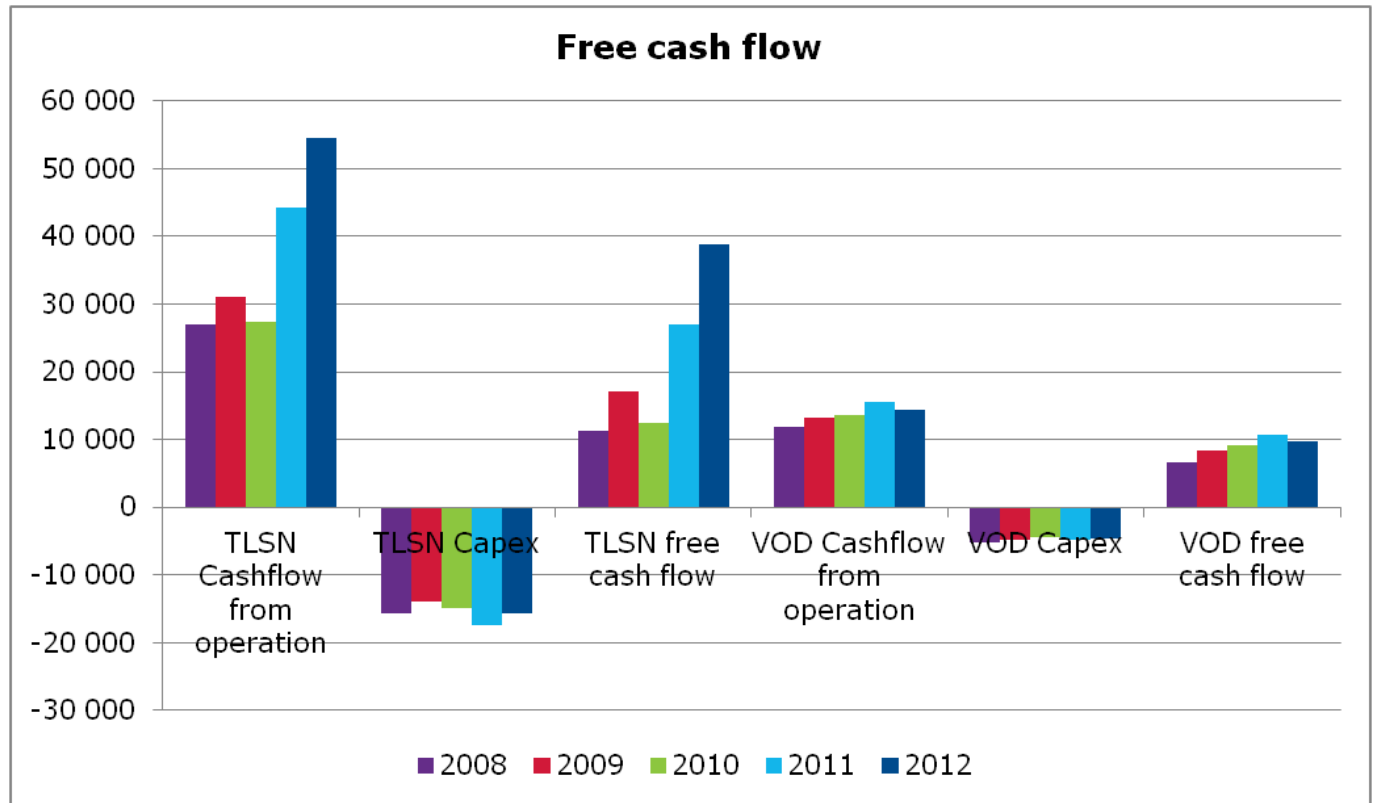
Source: Portugal Telecom Q4 09

# #5 Cash flow

TeliaSonera MSEK  
Vodafone MGBP



Cash from operations = revenues less all operating expenses, cash that a company generates through running its business



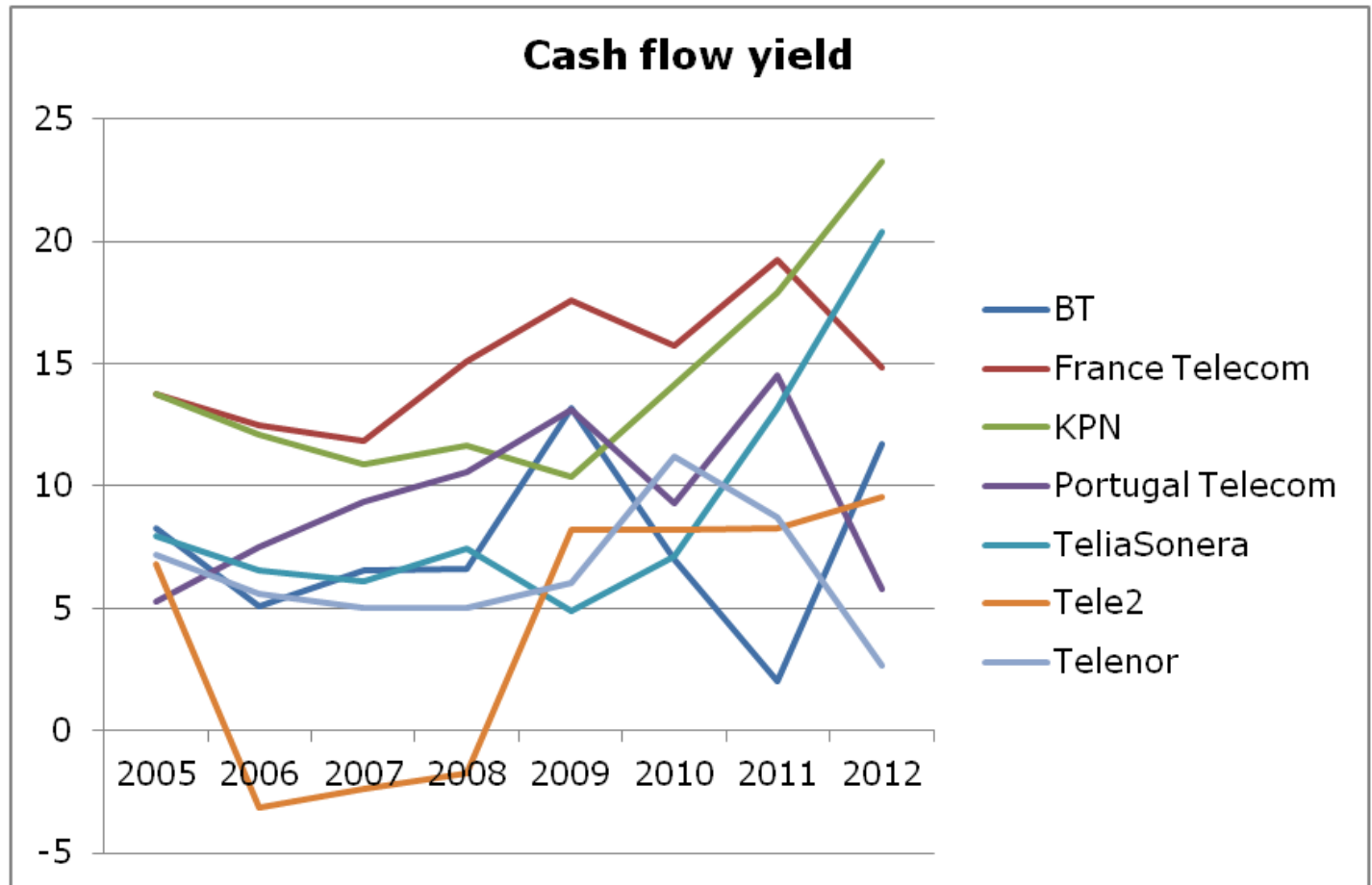
Source: Bloomberg

# # 5 Cash flow



Cash flow yield =  
Free cash  
flow/market  
capitalization

Simplified definition  
Free cash flow =  
EBITDA - Capex



Source: Bloomberg

# #6 Balance sheet

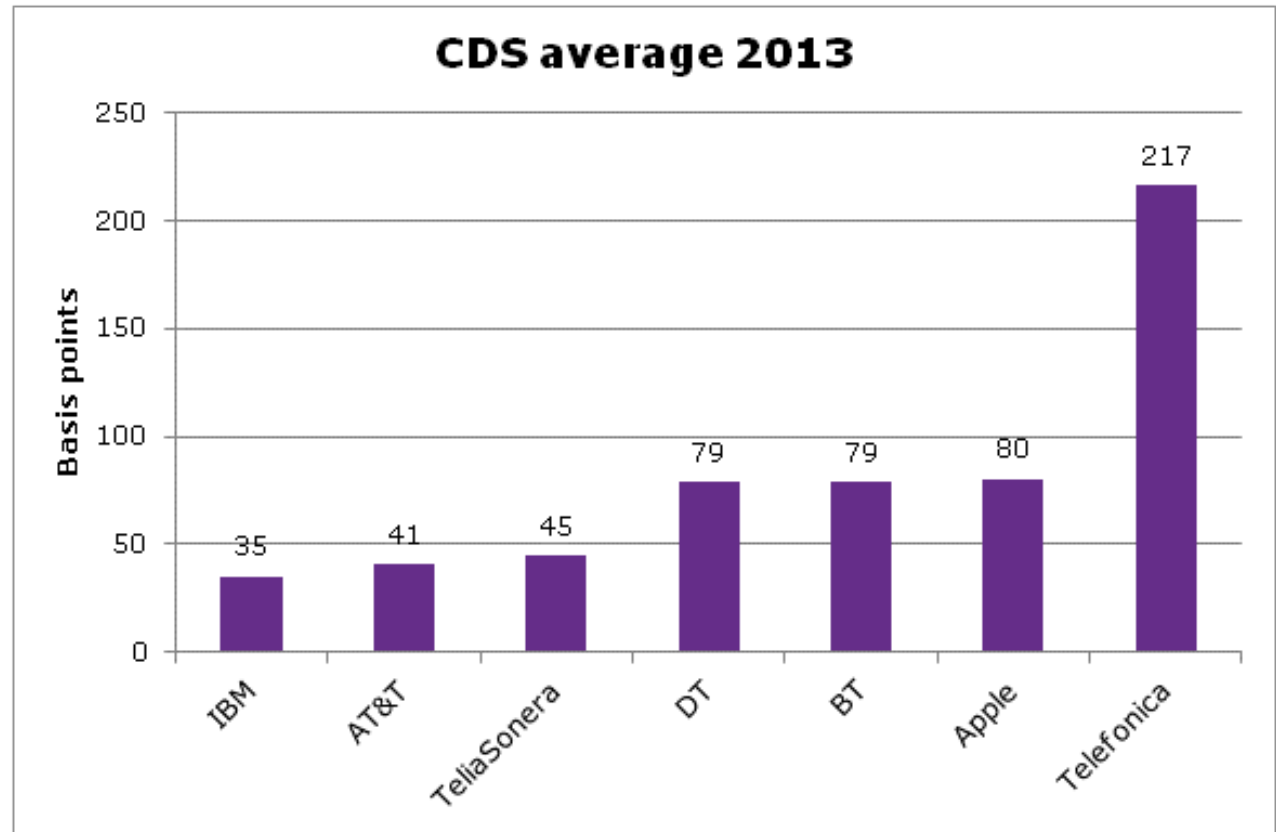


- Strong balance sheet gives a strong bargain position towards banks and credit institutions
- Balance the share of own capital and debt
- Others money is debt = interest-bearing liabilities
- Existing money is short-term investments and cash
- Balance return on equity (less debt higher share own equity) with risk
- How to impact net debt
- Cash flow
- Dividend
- Debt



# #6 Balance sheet

## Credit Default Swap (CDS)



CDS = A swap designed to transfer the credit exposure of fixed income products between parties.

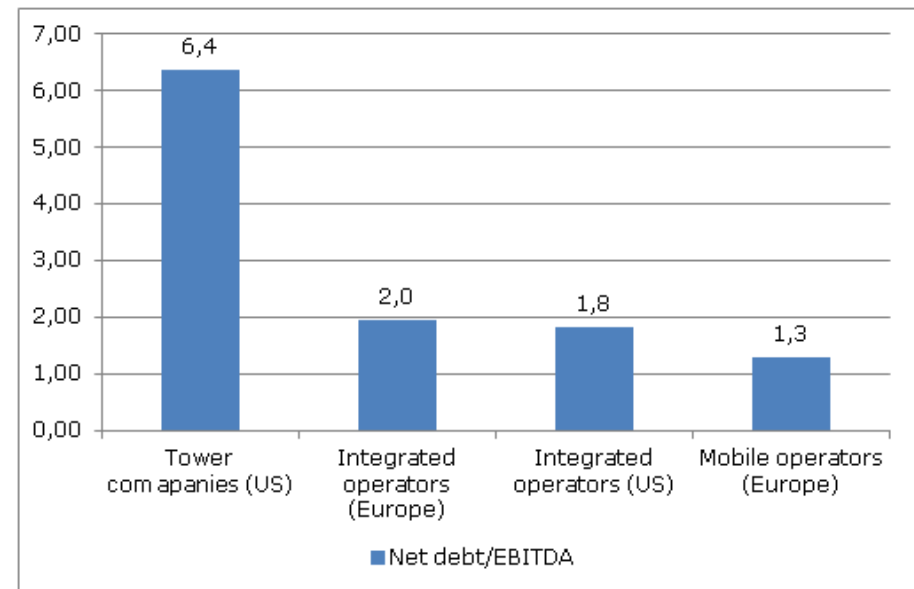
Source: Bloomberg

# #7 Net debt



- Net debt = Interest-bearing liabilities less short-term investments and cash
- Gearing: Net debt/EBITDA, average 1.73 among European operators
- Gearing: net debt/enterprise value, average 36% among European operators
- Funding cost depends on credit rating

Gearing: tower vs operators



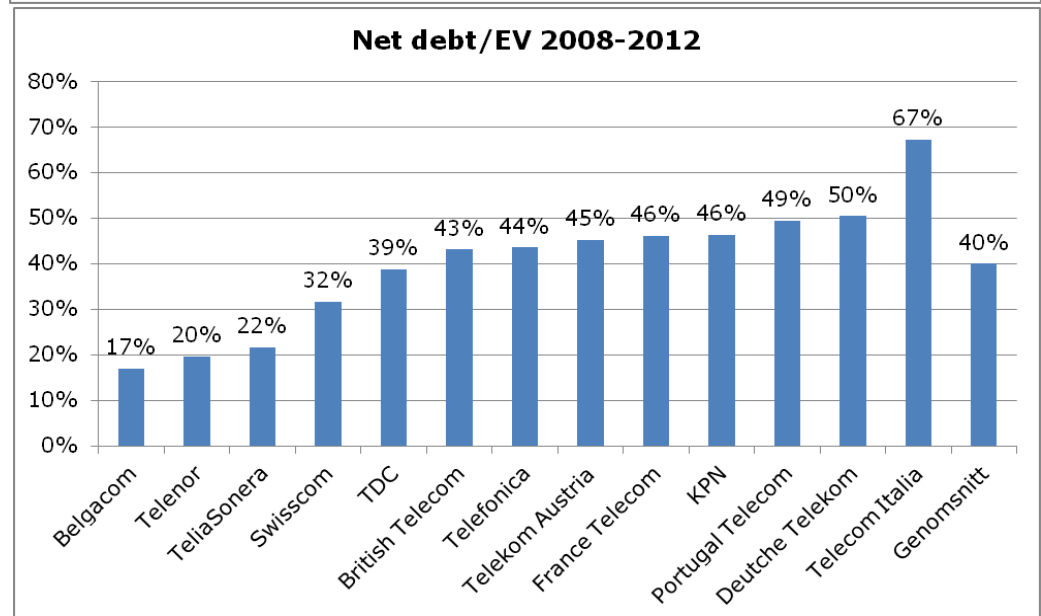
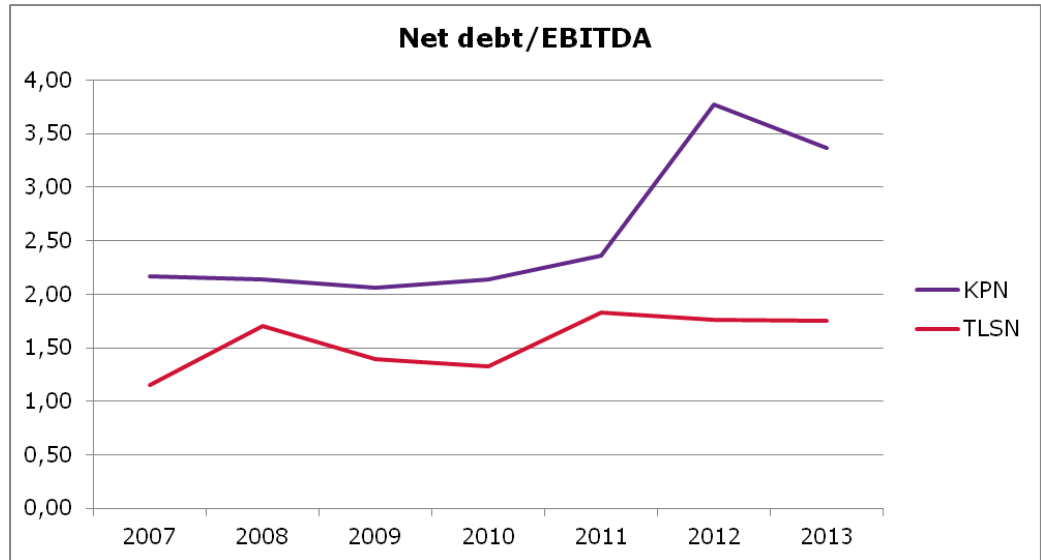
Source: Bloomberg

# #7 Net debt



TeliaSonera:  
medium-term  
target of Net  
debt/EBITDA of  
1.5-2.0x

Source: Bloomberg



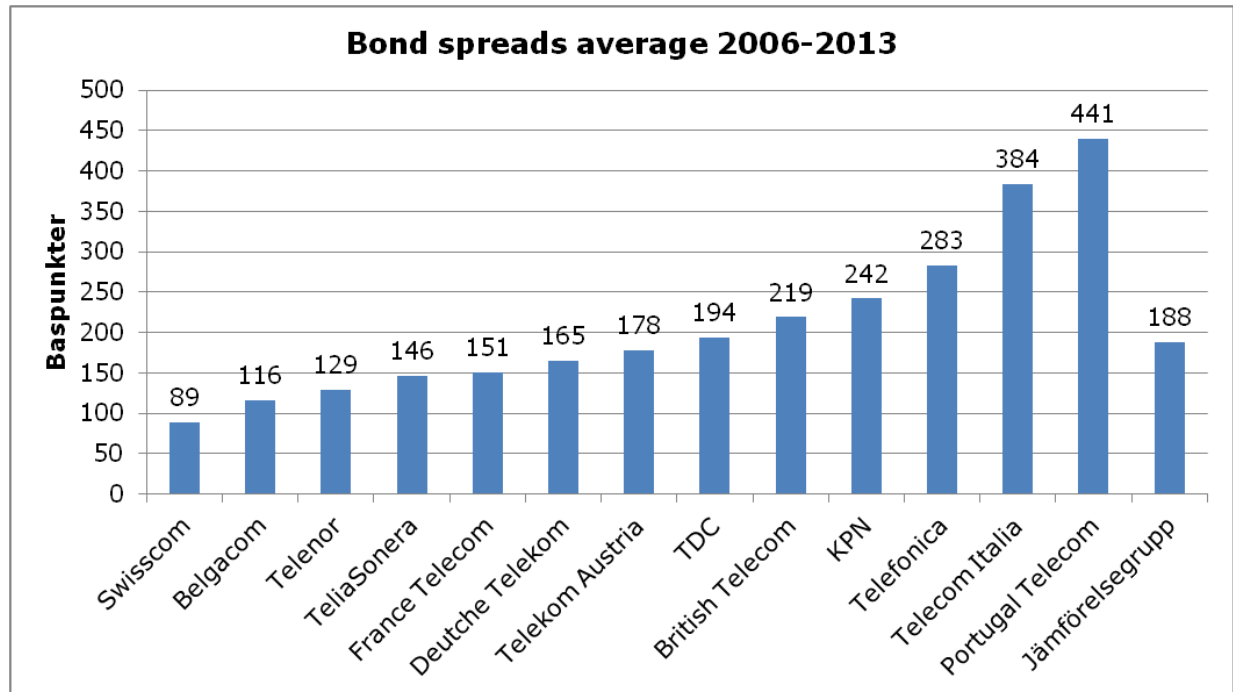
# #7 Net debt (funding cost)

Spread: bond yield  
– benchmark bond  
(government  
bonds)

Company	Spread	Ticker	Amount	Currency	Rating	Benchmark bond
TeliaSonera 2017	76	TLSNSS 4.75 03/07/17 Corp	750	EURm	A-	DBR 3 3/4 01/04/17
TeliaSonera 2020	86	TLSNSS 4.25 02/18/20 Corp	750	EURm	A-	DBR 3 1/4 01/04/20
TeliaSonera 2021	142	TLSNSS 4.75 11/16/21 Corp	850	EURm	A-	DBR 3 1/2 07/04/19
TeliaSonera	102					



- Rating by S&P
- Bonds are traded on a secondary market
- The spread gives an indication of the funding cost on top of risk free rate



Source: Bloomberg

# # 8 Dividend

## Portugal Telecom

### Robust set of financials and attractive shareholder remuneration



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Profit after tax



Capex/sales 19%

Net debt/EBITDA 2.2

Dividend yield 6.75%

Source: Portugal Telecom Q4 09

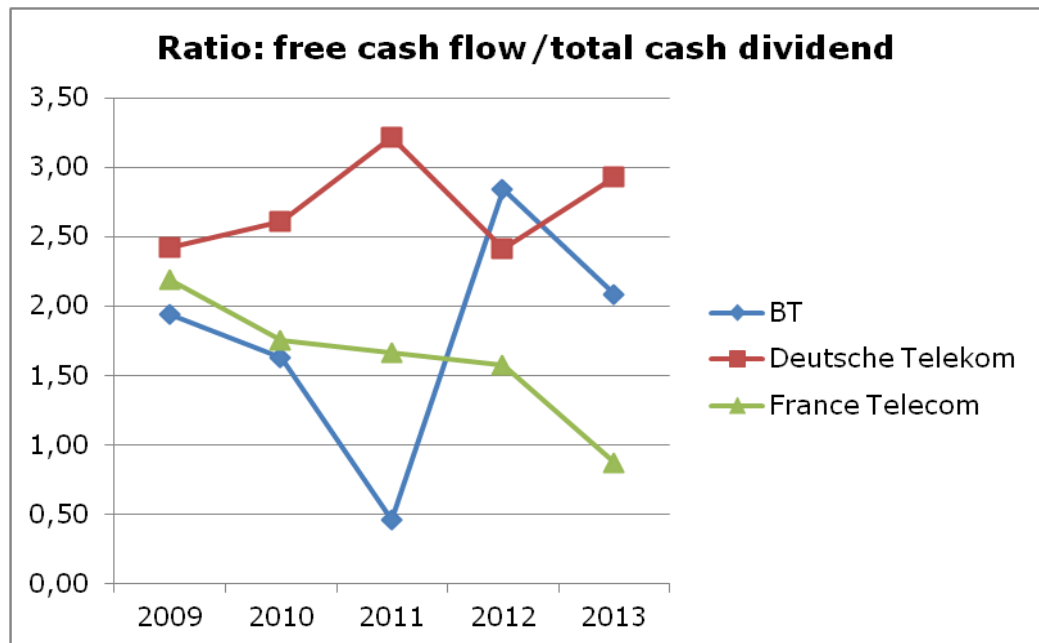
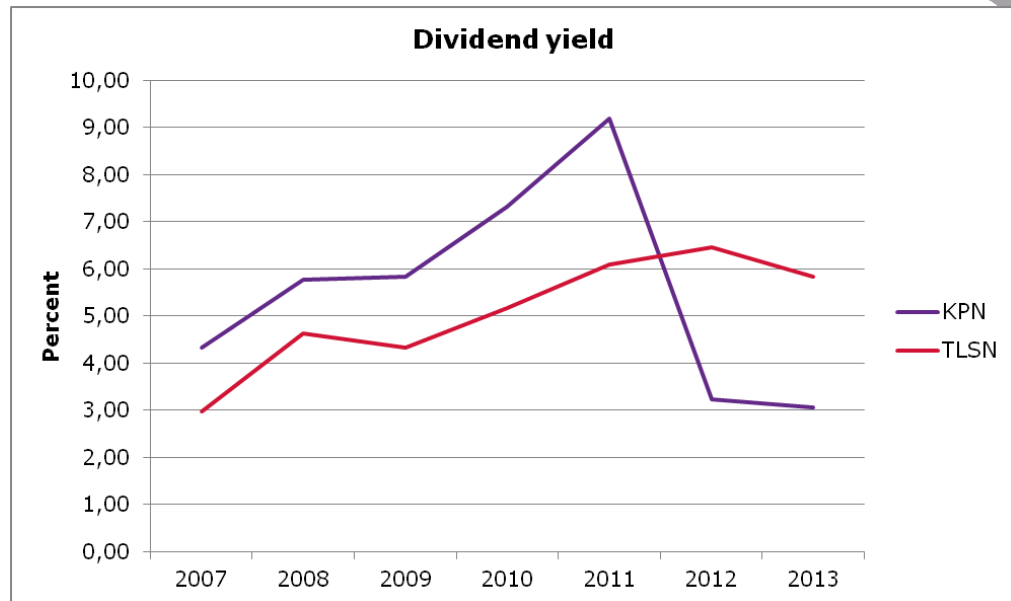
# # 8 Dividend

Dividend yield =  
dividend/share price



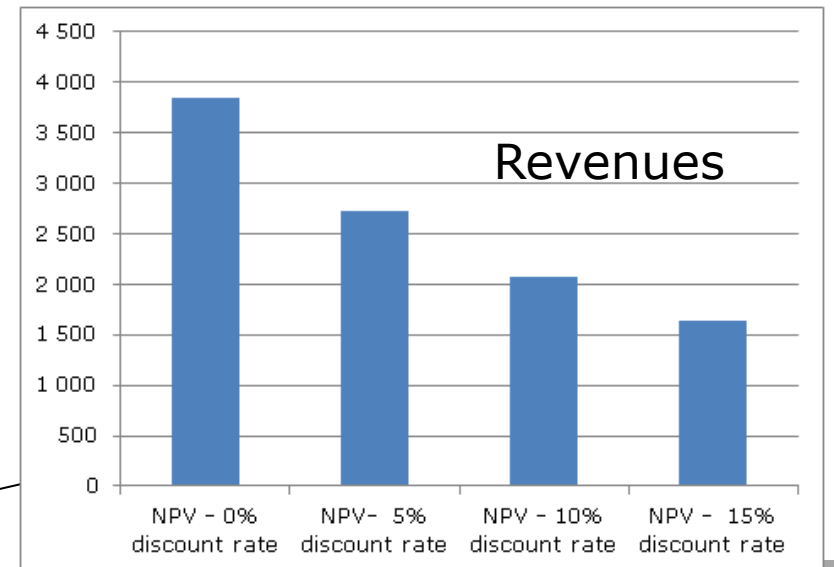
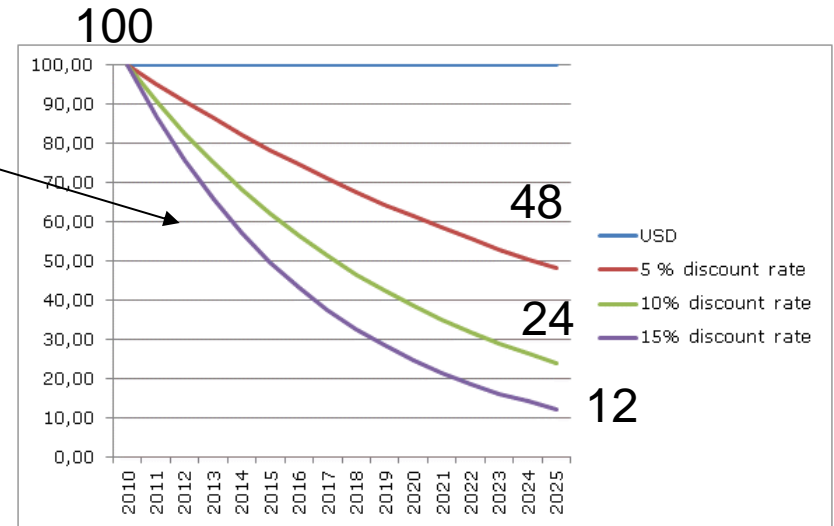
The ratio show the relation between free cash flow and dividend. It gives an indication of the company's ability to cover its dividend.

Source: Bloomberg



# #9 Net Present Value

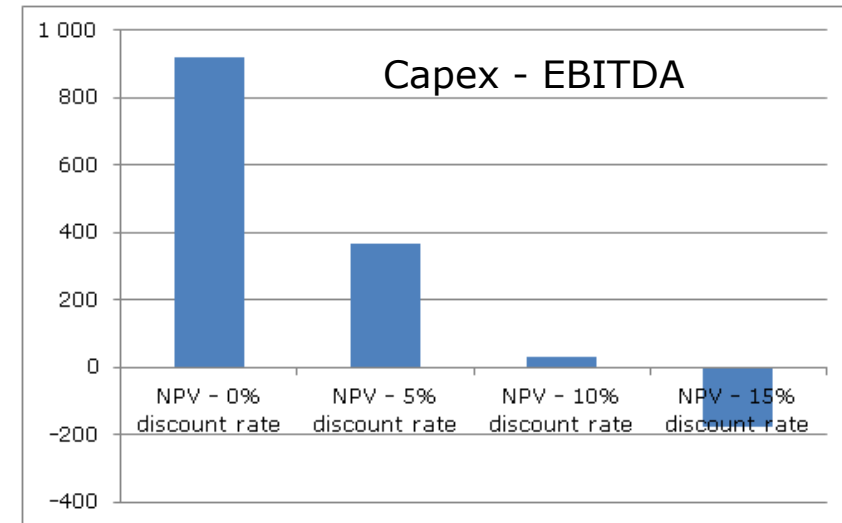
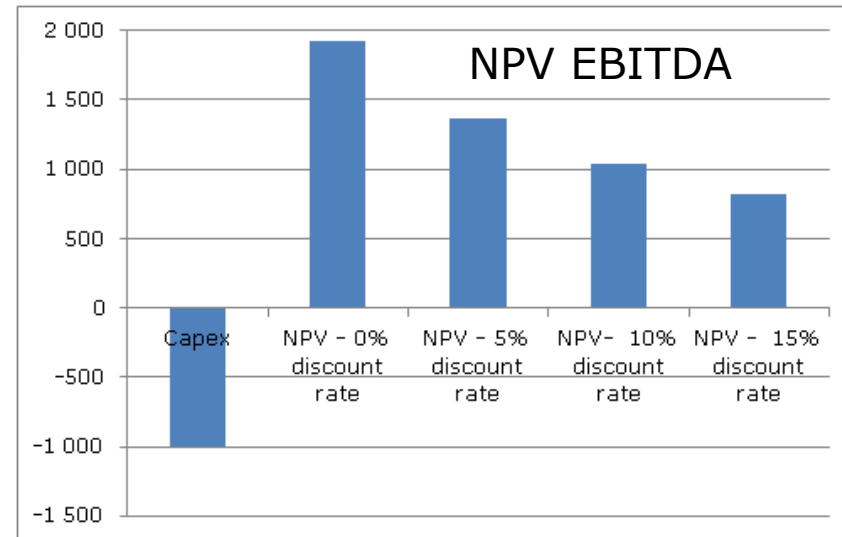
- The discount rate has a significant impact EUR 100 represents EUR 12-48 in 2025
- Net present value (NPV) of a time series of cash flow is the sum of the present values
- NPV is the difference between the present value of cash inflows and the present value of cash outflows
- Used to determine if a project is worth to invest in or not



Case Operator  
 Revenues 2010-2025  
 1 million subscribers  
 ARPU EUR 20  
 NPV

## #9 NPV (2)

- Revenues – Opex (in this case 50%) = EBITDA margin (in this case 50%)
- NPV varies from EUR 820-1900 m depending upon discount rate
- Let us assume Capex of EUR 1 bn to build the network
- Is it a good deal?
- Depends on discount rate
- 0-10%: positive NPV, go ahead
- 15%: loss, reconsider, explore other opportunities





# #10 Profit

## Portugal Telecom

Revenues, +1%

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization, 37%



Profit after tax

EBIT: Earnings Before Interest and Taxes

Pretax Profit

### Robust set of financials and attractive shareholder remuneration



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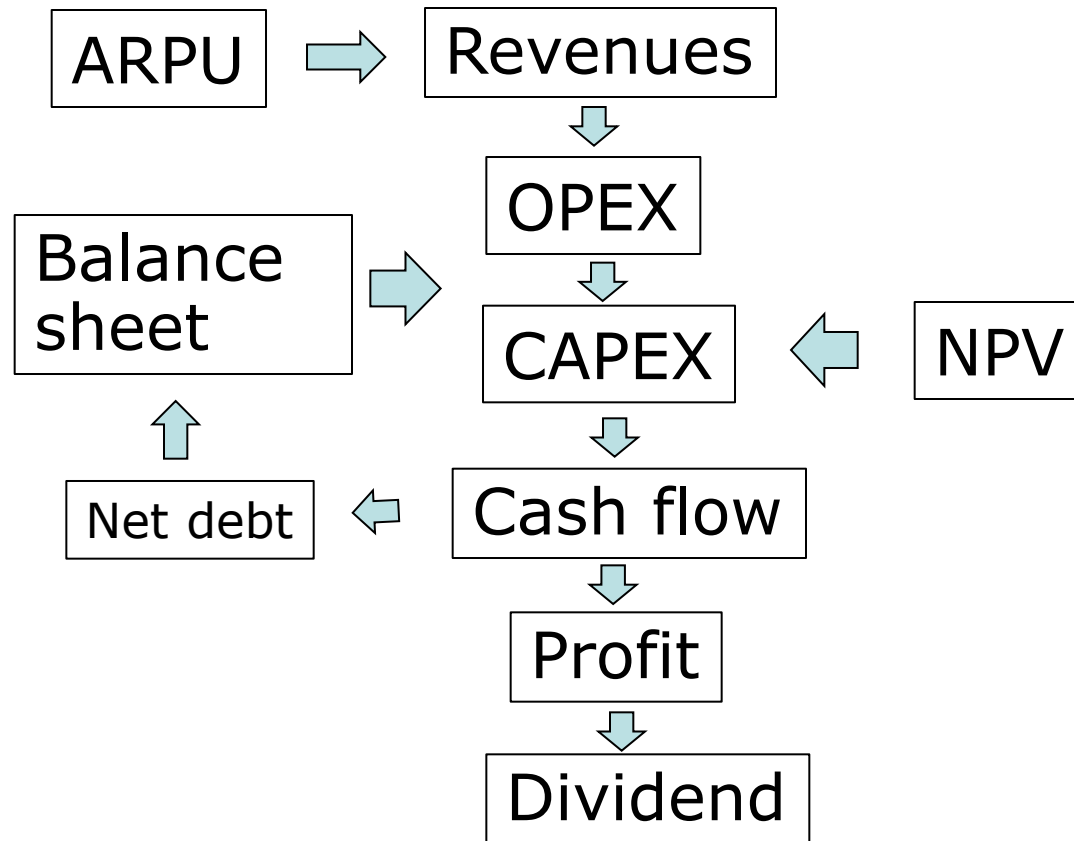
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Source: Portugal Telecom Q4 09

# Prepared to use the financial tool box



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# Concluding



- Ten key concepts: the financial tool box
- Develop and manage operation but also manage the financial and capital structure
- Key to balance cash flow with growth
- And to demonstrate how the capital is used in order to reach the appropriate returns of the capital base

“ the market needs to see what the capital base is, what they are doing with it and what the returns on capital will be” Source: FT